

period proposed by the Commission. For example, Peru has announced that it will permit competing carriers to enter the Peru market in 1999 -- only two years away.

Second, these countries have not postponed competition for the sake of postponement, but in order to privatize and develop their telecommunications markets as rapidly as possible. As Chairman Hundt recently acknowledged, privatization and modernization are the essential precursors to competition in developing countries. Specifically, Chairman Hundt urged adoption of these two fundamental principles of the Global Information Infrastructure ("GII"):

- Separate telecoms regulators from telecoms operators and privatize the operators as soon [as] possible. Let private foreign investment help that process.
- Introduce competition in the provision of telecoms services and facilities on a "date certain" basis.^{169/}

Peru provides an excellent example of these principles at work. Peru privatized its state-owned telephone company in 1994. In doing so, it offered the winning bidder a 5-year exclusivity period in which to develop the Peruvian telecommunications system. Without this exclusivity period, there would have been little incentive for the winning bidder to participate because the existing assets of the Peru telephone company did not hold much value. As it was, Telefónica Internacional won the bidding with an offer for \$1.8 billion for its 31.5% interest in the privatized company, now known as Telefónica del Perú, S.A.

As mentioned above, as part of its winning bid, Telefónica Internacional is obligated to make substantial investments to improve and modernize Peru's telephone system. Telefónica del Perú has already installed approximately 1,010,822 lines,

^{169/} Reed E. Hundt, American Chamber of Commerce, Remarks in Warsaw, Poland 5 (Jan. 23, 1996).

reducing the waiting time for telephone service from 70 to 1.5 months, and increasing telephone penetration from 2.9 to 5.9 lines per 100 inhabitants.

In addition, Peru is now poised to introduce competition, and to do so with a viable telecommunications network. Indeed, Peru's market is already open in all areas, e.g., such as cellular, cable TV, and paging, except for basic telephony. Moreover, American carriers are already entering Peru's competitive markets, and positioning themselves to take advantage of the upcoming opening of Peru's basic telephony market. For example, BellSouth recently bought control of Tele2000 in order to compete in the Peruvian market. Such competition should be given an opportunity to take root and flourish without the artificial constraints suggested by the FCC. Instead, the FCC should support Peru's efforts by providing it with the flexibility and breathing room it needs to make competition -- and thus lower accounting rates -- a viable long run reality.

IX. CONCLUSION

The Commission should continue to work with other governments and carriers on a bilateral and multilateral basis to reduce settlement rates, rather than adopt the unilateral approach of the NPRM. The multilateral efforts have already reduced the average U.S. settlement rate by 48%.

In any event, the Commission simply does not have jurisdiction over foreign carriers terminating U.S. calls. Similarly, the Commission lacks the statutory authority to rewrite contracts for terminating international calls between U.S. carriers and their foreign counterparts. Indeed, any Commission attempt to do so could provoke expropriation and compensation claims in binding arbitrations.

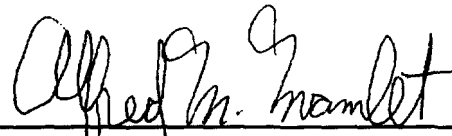
If regulatory action is warranted to reduce U.S. international collection rates, then the Commission should limit U.S. carriers to charging their incremental costs before imposing this requirement on foreign carriers because (1) U.S. carriers have an higher margin than foreign carriers; (2) the margin for U.S. carrier is increasing while the margin for foreign carriers is decreasing; and (3) it would be hypocritical for the FCC to limit foreign carriers to recovering incremental costs if the FCC were not willing to treat U.S. international carriers the same.

If the Commission proceeds with a unilateral approach, then it should tie settlement rate reductions to rate rebalancing. Most foreign carriers are not in a position to provide significant settlement rate reductions until they are permitted to rebalance their rates. Tying settlement rate reductions to rate rebalancing recognizes the political and economic realities in foreign countries, and aligns the Commission's goal of settlement rate reductions with the foreign carriers' economic imperative to rebalance rates.

Dated: February 7, 1997

Respectfully submitted,

**Telefónica Internacional
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CERTIFICATE OF SERVICE

I, Sandra R. Hammond-Murdico, do hereby certify that a copy of the foregoing **Comments Of Telefónica de España, S.A. And Telefónica Internacional de España, S.A.** has been sent, via first class mail, postage prepaid (or as otherwise indicated), on this 7th day of February, 1997 to the following:

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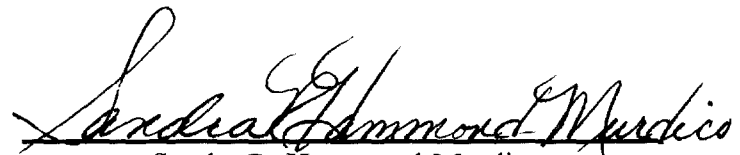
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